

The City of Lynchburg
Review of Billings and Collections Operations

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THE CITY OF LYNCHBURG

Review of Billings and Collections Operations

Office of Internal Audit

September 17, 2002

Introduction

Billings and Collections is under the supervision of an administrator who reports to the Financial Services Director. There are three separate areas within the division, each having a coordinator reporting to the division administrator. The area of **operations** consists of a senior teller, three (3) tellers, a cash receipts auditor, two (2) file management specialists and a telephone operator. **Utility billing** includes two (2) file management specialists and two (2) accounting technicians. The **revenue collections** section handles all delinquent collections and has four (4) revenue collection specialists, an account clerk III and a collections teller. The division also has an administrative assistant who reports to the division administrator.

The operations area handles all payments and deposits and maintains tax records for real estate, personal property, business licenses, meals/lodging/amusement and public service corporations. Records for miscellaneous receivables and landfill billing are also accounted for in this section.

Utility billing handles all of the billing and record management for water and sewer customers and revenue collections maintains records of trash decals and parking tickets in addition to monitoring and processing delinquent collections. Tobacco tax stamps are maintained and controlled by the division's administrative assistant and are issued by the file management specialists.

Review Objectives

The purpose of the review was to identify all of the processes performed within the Billings and Collections division and to evaluate:

- The appropriateness of work distribution,
- If any areas of non productive/unnecessary work exists,
- If there is performance of non cost-justifiable work,
- Whether there are areas of duplicate duties,
- Potential for changes in the organizational and reporting structure,
- The efficiency of processes/systems, and
- The effectiveness of internal controls.

Scope of Work

We prepared flow charts of work processes, reviewed the charts with division staff and supervisors and examined documents, accounting entries and balances. We specifically looked

for areas of inefficiency due to manual, redundant, and unnecessary operations. We discussed our observations with the staff and solicited input for possible process changes. City employees outside of the division, involved in or affected by the processes, were also interviewed.

Our review was not conducted as an audit and did not include tests of records and other audit procedures as required by professional internal auditing standards.

Observations and Suggestions

The following observations were discussed with the City Manager, Deputy City Manager, Billings and Collections Administrator and the Director of Financial Services on September 6, 2002. A Plan of Action will be written to address the process improvements to be implemented. The Office of Internal Audit will assist Financial Services with the project management and oversight, where possible.

I. Observation: Unnecessary Work Is Performed To Balance Real Estate Accounts

The Real Estate File Management Specialist prepares spreadsheets of outstanding balances for the current year and five delinquent tax years, plus a summary spreadsheet. Beginning system totals, daily payments, adjustments or corrections and ending totals are recorded on the spreadsheets that are used to balance the real estate tax receivable system on a daily basis. Copies of these spreadsheets are also sent to an accountant in the Accounting Division each month for reconciliation to the general ledger.

The Real Estate system is a New World Systems (NWS) module that interfaces with the Revenue Accounting and Financial Management modules. Tax levies and adjustments are entered to the real estate system which updates the general ledger accounts. When daily collections are balanced in Billings and Collections, the Cash Auditor releases the pending revenue entries to update the revenue accounting, financial management (general ledger accounts) and the real estate systems.

There should be no need to maintain a manual spreadsheet for balances and entries that are recorded on the automated system since the revenue accounting, real estate and general ledger modules are interfaced.

Suggestion:

We suggest that the preparation of the spreadsheets be discontinued. Monthly reconciliations of real estate system balances with general ledger balances should be prepared in Billings and Collections using system totals plus a log of adjustments. This process could be simplified with a standard reconciliation form.

Management concluded that there was little value in addressing this issue; therefore, it will not be included in the Plan of Action.

II. Observation: Unsupported Real Estate Tax Adjustments

Adjustments made to real estate tax records are not always supported with documentation, nor are they reviewed by someone other than the employee making the adjustments. According to staff, many of the adjustments are the result of verbal requests from banks and mortgage companies who do not follow up with written confirmations of the requests.

Suggestion:

We recommend that the File Management Specialist record all adjustments and corrections on a log and obtain adequate support documentation for the changes. We also recommend that adjustments be reviewed and approved by a supervisor.

Management agreed to require support documentation for all changes to the real estate accounts and require supervisory approval.

III. Observation: Inefficient, Outdated Process For Personal Property Taxes

Personal property taxes are maintained using a program written in house. The tax roll is created manually in the Commissioner of Revenue's office and IT prints the bills and loads the file information into the personal property system. The total levy amount is then sent to Financial Services by the File Management Specialist (FMS) in Billings and Collections and a manual journal entry is made to the Financial Management system. Payments are posted to the personal property system through an interface with the revenue accounting module but any adjustments to the accounts must be manually entered. The FMS maintains spreadsheets of bill amounts, adjustments and payments by tax year and uses them to balance the system daily. Copies of these spreadsheets are sent to the accounting division monthly for general ledger reconciliation.

Suggestion:

We were told that writing an interface to link the personal property system with the general ledger cannot be done. We recommend that management consider purchasing a system that is compatible with NWS. Until such time that another system becomes available, we recommend eliminating duplicate work by maintaining a log of daily adjustments in lieu of the detailed spreadsheets. We also suggest that Billings and Collections personnel perform reconciliations instead of compiling data and forwarding it to the accounting division.

Due to the uniqueness of the Virginia personal property tax system, there is very limited software available to serve Virginia localities. The personal property module of New World Systems is not compatible with the State's program. Management does not think writing a custom program is justifiable at this time, but will continue to assess software used by other Virginia localities for compatibility with City financial systems.

Management does not feel that changes to the existing process for reconciling personal property transactions would add value to the administration of the program. This issue will not be included in the Plan of Action.

IV. Observation: Several Processes Are Manual

There are several processes in Billings and Collections requiring manual operations. Records of miscellaneous receivables are maintained on a spreadsheet and the process for recording and tracking receivables and delinquent accounts is totally manual. The process for the billing and collecting of Business License taxes and Landfill fees is partially automated, but still requires manual data input. Information Technology (IT) loads billing information for each of these processes to the registered billing system which was written in house. The landfill bills are sent to IT on a tape from the landfill system, and the business license file is uploaded from manual entries made by the Commissioner of Revenue's (COR) Office. The payments and adjustments are keyed manually by the File Management Specialist in Billings and Collections.

Suggestions:

- 1) Implement the New World Accounts Receivable Module to process miscellaneous accounts receivable and landfill charges. This would eliminate manual payment entries. It would also provide the capabilities of analyzing and aging receivables that do not exist in the current program.
- 2) Consider using a Centralized Address Data Base System to process business licenses. A Request For Proposal has been issued for such a system to process building permits in the Department of Community Planning. Advantages of using such a system are:
 - a. Direct entry to the system will be interfaced with the Revenue Accounting module.
 - b. Printing permits/licenses in Billings and Collections at the time the payment is made will insure that all payments are received. (This will also reduce the work within the office of the Commissioner of Revenue and in Information Technology, where licenses are currently printed.)
 - c. The process would eliminate batch entry and create real-time data.
 - d. Current and delinquent account information will be available.

Financial Management and Information Technology management agree that the Accounts Receivable module should be implemented. Since staff is limited due to numerous ongoing projects, Internal Audit staff volunteered to test the module on the development system of NWS to determine what, if anything, would need modification. Both departments agree with the testing. Following the testing, an implementation plan and required resources will be developed. Included in this plan will be the requirements necessary to convert the manual records to the automated system.

Both departments are also in agreement with utilizing a centralized address data base, if possible, to reduce work and provide greater efficiencies and controls over the business license process. This issue will be included in the Plan of Action.

V. Observation: Payment Process Creates Need To Check Tellers' Work

Billings and Collections tellers balance their work daily. The following day, the Cash Auditor balances daily transactions to cash receipts and corrects errors. In addition, she confirms balances on the revenue distribution report by grouping tickets by transaction type and comparing them to the report totals. This routine appears to be a duplication of the work already performed by the tellers.

The review is in place due to numerous corrections resulting from:

- 1) Incorrect calculation of penalties and interest related to late payments;
- 2) Mistakes made due to processing many different types of transactions;
- 3) Incorrect coding by departments on "Reports of Collection";
- 4) Failure of customers to provide copies of payment documents; and
- 5) Errors in keying.

Suggestion:

We suggest that the department adopt a proactive, rather than reactive, solution to ensure the accuracy of financial records by:

- 1) Implementing scanning equipment for use by the tellers to eliminate errors in original processing of payments and the need to perform duplicate work. Technology is currently in use in Billings and Collections to process mail payments that is capable of reading scan lines.
- 2) Establishing a position as a check-in point for customers to ensure they have appropriate documents and print duplicate bills when customers fail to bring them. This position would be able to compute penalties and interest on the various types of late payments and encode the documents for proper scanning, when scanning equipment is implemented. Reports of Collections could also be routed through this individual to verify accuracy of the payment codes before they are processed. A position such as this has been successful in other localities and state agencies such as the Division of Motor Vehicles.

Management does not believe it is cost effective to establish a position as check-in point on a full- time basis. During the highest walk-in customer period, such a position is utilized for optimum customer service. Management also believes the Cash Receipts Auditor position is necessary. In an effort to ensure availability of tellers to serve customers, daily balancing by the tellers is limited to reconciling total cash, checks and credit card receipts to total transactions. The Cash Receipts Auditor is responsible for the detail reconciliation of each payment type.

The Billings and Collections Administrator recently purchased new registers and investigated the use of scanners. The result of the investigation disclosed that the type of scanners associated with the NWS point of sale application is limited to one. NWS is developing a broader base point of sale application that may provide for more versatility in scanning documents. Currently

the tellers have older version scanners, but find them inefficient. Given the status of the existing software limitations, management does not think purchasing replacements at this time would be cost effective. This will not be included in the Plan of Action.

VI. Observation: All Payments Are Not Entered Into Revenue At Time of Receipt

Payments for miscellaneous receivables, parking tickets, vendor trash tags and all delinquent accounts are routed to various staff within Billings and Collections prior to being processed into the revenue accounting module.

Currently all penalties and interest for late payments are computed by the Revenue Collection Specialists to ensure that the amounts are appropriately applied to the accounts. Copies of the bills for receivables, parking tickets and vendor trash tags are pulled and forwarded to the tellers in order to validate two copies of the document.

Good accounting principles require segregation of the billing and payment processing duties to prevent misappropriation or loss of funds.

Suggestion:

Procedures should be revised to apply all payments to revenue accounts prior to distribution to the various staff for updating the subsidiary systems.

Currently, mail is sorted and allocated among various staff to be processed for payment recordation on a daily basis. Internal Audit will work with the Billings and Collections Administrator to develop a procedure for the proper handling and coding of mail payments that will ensure proper control over payment receipt and recording.

VII. Observation: There Are No System-generated Reports For Monitoring Delinquent Accounts

There is no automated process to transfer data on various receivables to delinquent collections. A number of spreadsheets are maintained in the revenue collection section of Billings and Collections since there are no system-generated reports of delinquent accounts. The spreadsheets must be continuously monitored and manually updated. Additionally, the Revenue Collection Specialists manually compute penalties and interest for individual accounts. Current programs such as the Meals, Lodging & Amusement tax system are unable to properly compute and apply these amounts. Therefore, when a payment is received, it is not immediately deposited, but is routed to the delinquent account area for computing penalties and interest.

Suggestion:

- 1) Implement the NWS Accounts Receivable module and utilize the delinquent reports generated by the system for monitoring and maintaining delinquent accounts. The system should also be able to apply penalties and interest.
- 2) Research systems available to track all delinquent accounts.
- 3) Write a program which will enable the delinquent teller to compute interest and penalty at the time payments are received.

As noted previously, management has agreed to implement the NWS Accounts Receivable module. Internal Audit will work with the Billings and Collections staff to determine if there are subsidiary systems in other areas that can provide delinquent account information. This issue will be included in the Plan of Action.

VIII. There Is No City-wide Policy In Place For Writing Off Delinquent Accounts

During our review of Miscellaneous Accounts Receivable, we reported that the City did not have a policy for writing off delinquent accounts. Although work has begun on this policy, there are still different practices followed throughout the City.

Suggestion:

Establish a policy for writing off delinquent accounts that is uniform throughout the City.

Management has agreed to establish a uniform policy for writing off accounts deemed to be uncollectible. A time-line for the implementation of this policy will be included in the Plan of Action.

IX. Observation: Inefficient Process For Parking Fines

One employee in the Revenue Collection section of Billings and Collections manually enters all parking tickets to the NWS parking fine module and receives payments to prepare them for processing by the cashiers. The employee also reconciles payments posted through the revenue module, obtains court dates for those persons contesting fines, notifies IT to print summons, appears in court on the City's behalf and writes off those fines excused by the court. The parking ticket process is the only function performed by the person in this position. The revenue received for parking fines averages approximately \$160,000.00 a year.

Suggestion:

We recommend purchasing hand-held computers for use by the two officers in the downtown area (where approximately 80% of the tickets are written) and creating a mechanism to load the data directly into the NWS module. This will greatly reduce the time required to manually enter parking tickets.

Based on discussions with Police Department staff, we suggest that the practice of processing contested parking tickets through the court system be modified to include the establishment of an administrative committee to review contested tickets and determine those fines which can be dismissed. Once the committee decisions are made, those fines still unpaid and contested would require court appearances; however, the number should be greatly reduced. It would also eliminate work for the IT department by reducing the number of summons needing to be printed.

Financial Services and IT management agreed to pursue purchasing hand-held computers for the two downtown officers. Police personnel have requested information on these computers. IT will research the possibility of converting the data to the NWS module. The Action Plan will include determining the feasibility of creating an administrative parking ticket review committee.

X. Observation: Duplicate Data Entry For Alarm System

Invoices for Alarm permits and false alarm fees originate at the Emergency Communications Center (E911) from data maintained on the Alarm Billing System. Payments are received in Billings and Collections and processed through the revenue accounting module. The subsidiary system at E911, however, must be manually updated using a report of payments faxed from Billings and Collections. Therefore, payments are keyed twice.

Suggestion:

We suggest that management explore the possibility of interfacing revenue accounting with the Alarm Billing System, or creating a file to be downloaded to the system in order to eliminate redundant entries of payments.

Financial Services and Information Technology management agreed to explore the possibility of transferring payment information electronically from the NWS revenue accounting module to the E911 system. This issue will be in the Plan of Action.

XI. Observation: Utilities Information Is Not Always Coordinated With Billing Staff

Employees from the Public Works Utilities Division install water meters, perform meter readings and replace old/damaged meters. Staff within Billings and Collections maintain the billing system and process the bills. This has lead to difficulties such as inaccurate/incomplete data entered in one department that must be processed by another, disagreements over the timing of meter reading, scheduling and timeliness of meter change-outs and the responsibility for deciding when to estimate bills. The priorities in one department may be in conflict with those in the other department. Inaccurate/incomplete information in the billing system and untimely meter readings and meter changes may result in loss of revenue to the City.

Suggestion:

We suggest that management consider the possibility of combining these two functions under the same supervision to establish more efficiency in the process and maximize revenue.

Management believes that the current staff in these departments have established a good working relationship and have determined that there are few scheduling problems at this time. No action will be taken on this issue.

XII. Observation: The City Does Not Utilize All Options To Enhance Collections

Several changes could be made within the current processes that would eliminate paper work, create more efficiency, better serve the customers and enhance collection efforts.

Suggestion:

- 1) Expand the City's capability to accept electronic payments beyond the Official Payments process currently used for paying Real Estate and Personal Property taxes.
- 2) Allow credit card payments to be made at the tellers' windows.
- 3) Consider creating utilities for businesses to complete and file on-line tax forms for reporting Business License and Meals, Lodging and Amusement taxes.

The Billings and Collections Administrator is currently working with the I.T. Director to implement, where feasible, these recommendations. This will be scheduled in the Plan of Action.

According to the I.T. Director, the State currently has a contract for processing electronic payments that is available to localities. The fees under this agreement are much less than those currently charged to our customers who pay through Official Payments. However, there are extensive fees charged to the City.

Other Comments

We appreciate the time and assistance we received from the staff within Billings and Collections, the Commissioner of the Revenue's Office, Emergency Communications, Information Technology, and the Police Department. We are available to discuss this report should there be questions of comments.

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